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Research Bulletin

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Business Operations Contract Yields Improved Management Focus and 20% Cost Reduction for BP Exploration

Typically organizations entering outsourcing agreements talk about the importance of a close partnership between vendor and client. However, in practice many organizations separately outsource a number of service elements to differing suppliers so as to obtain the lowest possible price for each individual service element.

Unfortunately this latter approach may not be the best way to optimise the overall business process. A business operations contract between Andersen Consulting and BP Exploration illustrates an alternative approach which has been very successful.

The key elements of this approach are:

- Providing the vendor with the scope to optimise the overall process.
- Recognising that vendor culture is more important than cost
- Facilitating continuous improvement.

Provide Vendor with Scope to Optimise Overall Business Process

In 1990, BP Exploration was faced with the following scenario for its North Sea operations:

- Oil price falls in real terms
- Costs rising as a result of:
 - An increasing number of small oilfields
 - Growing environmental pressures.

Accordingly the organization reviewed all of its activities to identify means of possible cost reduction. Many activities were outsourced as a result.

BP Exploration perceived that the bulk of the accounting function in Aberdeen could be outsourced, provided that BP Exploration remained in charge of business interpretation, setting policy, and establishing standards of service.

BP Exploration could have optimised contract costs by separately outsourcing:

- Equipment operation
- Software development and maintenance
- Accounting services.

However, instead the company wished to provide scope for its chosen supplier to re-engineer the overall business process. BP Exploration perceived that Andersen Consulting had the capability to do this and manage all aspects of the process.

Vendor Culture is More Important than Cost

Accordingly BP Exploration signed a contract with Andersen Consulting to take over the operation of the company's accounting function in Aberdeen. This contract was signed in June '91 and is valued at £55 million over four years.

At this time, BP Exploration transferred 310 personnel to Andersen Consulting, retaining 30-40 of the original accounting department. These staff were merged with planning personnel forming a new commercial department.

BP Exploration did not go out to competitive tender for this contract. The company had a long relationship with Andersen Consulting, and were impressed by Andersen Consulting's ethos, overall capabilities, and systems expertise. However, the deciding factors in choosing Andersen Consulting were the perceptions that the two organizations shared the same vision and were culturally compatible. BP Exploration believe that getting the cultural aspects of an outsourcing relationship right is more important than cost.

The business activities performed by Andersen Consulting include:

- Processing of invoices and payments
- Management of bank accounts

- Production of monthly and quarterly management reports and identification of variances
- Production of statutory accounts.

Facilitate Continuous Improvement

Many outsourcing contracts become inflexible if the client insists on negotiating strict cost schedules in advance. BP Exploration believes that the vendor should be given the freedom and encouragement to seek continuous process improvement in conjunction with the client.

To achieve improved quality of service, Andersen Consulting has consolidated BP Exploration's accounting activities from six sites to a single site. In addition, the software has been modified to speed up processes and service transferred to equipment based in Andersen Consulting's Harrogate centre.

Andersen Consulting is measured against service level agreements based on daily, weekly and monthly deliverables. BP Exploration is particularly concerned about accuracy in maintenance of bank accounts, and on-time payment of invoices.

Performance is reviewed via a monthly performance report. However BP Exploration stresses the importance of client and vendor working together to improve the overall service and not using review meetings to apportion blame.

The price of the contract is reviewed quarterly in advance. A global fee is agreed which moves with the level of activity but is not priced by item.

In many senses, BP Exploration has broken all the conventional rules of outsourcing:

- The company did not use competitive tendering to select its supplier
- The company did not optimise the cost of each service component

- The company has not agreed a schedule of costs for the life of the contract.

However, in spite of this, or because of this approach, BP Exploration is pleased with the progress that has been made. The company has been the beneficiary of 20% cost savings and its management has been freed to focus on important issues rather than day-to-day administration of the accounting department.

This profile is issued as part of INPUT's Outsourcing Information Systems Programme for the information services industry. If you have any questions or comments on this profile, please call your local INPUT organisation or Peter Lines at INPUT, 17 Hill Street, Mayfair, London W1X 7FB England. (071) 493 9335, Fax (071) 629 0179

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